



Republic of the Philippines
 Supreme Court
 Manila

FIRST DIVISION

SAN MIGUEL CORPORATION,
 Petitioner,

G.R. No. 237506

Present:

- versus -

PERALTA, *CJ.*, *Chairman*,
 CAGUIOA, *Working Chairman*,
 REYES, J. Jr.,
 LAZARO-JAVIER, and
 LOPEZ, *JJ.*

LEONARA* FRANCISCO VDA.
 DE TRINIDAD, SPS.
 TEODORICO F. TRINIDAD
 AND SUSANA COSME-
 TRINIDAD, SPS. GEMMA F.
 TRINIDAD-GANDIONGCO*
 AND ALFREDO M.
 GANDIONGCO,** JR., SPS.
 MANUEL F. TRINIDAD AND
 RUBI REMIGIO TRINIDAD
 AND SPS. GRACE F. TRINIDAD-
 MALOLOS AND BISMARCK D.
 MALOLOS,

ROBERTO N. GANDIONCO,
 Respondents.

Promulgated:

JUL 28 2020

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DECISION

REYES, J. JR., *J.*:

Through this Petition for Review on *Certiorari*¹ under Rule 45 of the Rules of Court petitioner San Miguel Corporation (SMC) seeks a review of

* Also referred to as "Leonara" in some parts of the *rollo*.
 * Referred to as Gandionco in some parts of the *rollo*.
 ** Also referred to as Gandionco in some parts of the *rollo*.
¹ *Rollo*, pp. 11-30.

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the Court of Appeals' (CA) Decision² dated October 10, 2017 and Resolution³ dated February 14, 2018 which denied SMC's appeal, and, thus, affirmed the Regional Trial Court's (RTC) Decision dated August 28, 2014 which voided the real estate mortgages (REMs) and subsequent foreclosure over the subject properties for lack of authority to mortgage on the part of the attorney-in-fact.

Facts

Respondents Leonara Francisco Vda. De Trinidad, Teodorico F. Trinidad, Gemma Trinidad-Gandionco, Manuel F. Trinidad, and Grace F. Trinidad (collectively, Trinidad, *et al.*) are the registered co-owners of two parcels of land located at Pamplona, Las Piñas City, and covered by Transfer Certificate of Title (TCT) Nos. T-6346 and T-6347. Respondent Gemma Trinidad-Gandionco (Gemma) is the registered owner of two parcels of land, likewise located at Pamplona, Las Piñas City, and covered by TCT Nos. T-5433 and T-52796.⁴

Gemma's brother-in-law, respondent Roberto N. Gandionco (Roberto) opened a beer dealership for Masbate City with SMC. One of SMC's standard requirements for a dealership is the submission of sufficient collateral, in money or other valuable properties, to secure the beer stocks to be taken out from SMC.⁵

As such, Roberto approached Gemma and asked for help with the submission of the collateral requirement. Gemma lent TCT No. T-52796, and allowed Roberto to offer the same as collateral. After three months, Roberto again approached Gemma for additional collateral as the value of the property covered by TCT No. T-52796 was insufficient. Gemma again acceded and lent TCT No. T-5433 to Roberto.⁶ In 2005, Roberto again asked Gemma if there is another property that can be offered to SMC so Roberto can obtain additional stocks. After obtaining the consent of Trinidad, *et al.*, Roberto was lent TCT No. T-6347. For the fourth time, in 2007, Roberto asked from Gemma if he could offer another property to SMC so he could obtain additional stock. Again, after obtaining the consent of Trinidad, *et al.*, Roberto was lent TCT No. T-6346.

In these four instances, Gemma and Trinidad, *et al.*, executed the corresponding special power of attorney (SPA) in favor of Roberto, which were similarly-worded and varying only as to the property involved, as follows:

² Penned by Associate Justice Renato C. Francisco, with Associate Justices Sesinando E. Villon and Manuel M. Barrios, concurring; *id.* at 31-46.

³ *Id.* at 47-48.

⁴ *Id.* at 33.

⁵ *Id.* at 13.

⁶ *Id.* at 34.

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To offer as collateral, security or property bond with [SMC] a parcel of land located at Las Piñas City containing an area of ___ square meters and all improvements thereon and covered by TCT No. _____.

HEREBY GIVING AND GRANTING unto my/our said Attorney-in-Fact full power and authority whatsoever requisite necessary to be done in and about the premises as fully to all intents and purposes as I/WE might or could lawfully do if personally present and acting; and

HEREBY RATIFYING AND CONFIRMING all that my/our Attorney-in-Fact shall lawfully do or cause to be done under and by virtue of these presents.⁷

When asked about the status of the certificates of title, Roberto would explain that the titles were still in SMC's possession which has yet to decide which title to accept as collateral. It was the understanding of Gemma and Trinidad, *et al.*, that should SMC accept their certificates of title as collateral, Roberto would bring the necessary documents from SMC which Gemma and Trinidad, *et al.*, would then sign.⁸

However, using the SPAs, Roberto executed REMs over the properties covered by TCT Nos. T-6347 and T-5433, both in favor of SMC. These mortgages were annotated on the titles.

Meantime, Roberto availed of beer stocks from SMC which he regularly paid. However, in August 2007, 18 successive post-dated checks issued by Roberto were dishonored, leaving unpaid obligations amounting to about Seven Million Pesos (P7,000,000.00).⁹ When efforts to collect failed, SMC undertook to extra-judicially foreclose the REMs. At the foreclosure sale, SMC emerged as the highest bidder.

In 2008, Gemma and Trinidad, *et al.*, learned that Roberto's business had closed down, and that Roberto surreptitiously mortgaged two of their properties. Consequently, Gemma and Trinidad *et al.*, executed four revocations of the SPAs wherein they cancelled all the SPAs issued in favor of Roberto. They also wrote a letter to SMC informing the latter that the SPAs had been revoked.¹⁰ No reply was given by SMC until Gemma and Trinidad, *et al.*, learned of the foreclosure proceedings.

Aggrieved, Gemma and Trinidad, *et al.*, filed the complaint *a quo* for the annulment of mortgage and foreclosure sale and for the recovery of their titles.

In their Answer with Compulsory Counterclaim and Cross-claim, SMC argued that the revocations of the SPAs were belatedly made as the REMs were already constituted over the properties. Thus, SMC argued, at the time the REMs were made, the SPAs were still valid and constituted

⁷ Id. at 40.

⁸ Id. at 34.

⁹ Id. at 14.

¹⁰ Id. at 35.

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sufficient authority for Roberto to enter into the mortgage contract. SMC also denied the allegation that they knew of Roberto's limited authority and that the REMs were entered into surreptitiously. Finally, SMC contended that Gemma and Trinidad, *et al.*, were guilty of laches as they only questioned the validity of the REMs when there was a threat of actual foreclosure.¹¹

Roberto did not file any answer, and, as such, was declared in default.¹²

On August 28, 2014, the RTC rendered its Decision voiding the REMs, and, consequently, the extra-judicial foreclosure over the properties. According to the RTC, Roberto's authority is only to offer the subject properties as collateral. It held that SMC should have been placed on guard by the fact that the SPAs were long executed before the REMs were entered into.¹³ The RTC also directed SMC to return to Gemma and Trinidad, *et al.*, their Owner's Duplicate copies of TCT Nos. T-6346, T-6347, T-5433, and T-52796. It also directed SMC to pay moral damages, attorney's fees, and costs of suit.

SMC's cross-claim against Roberto was likewise dismissed by the RTC on account of SMC's failure to prove Roberto's liability. The RTC noted that SMC did not present evidence, such as receipts, to prove Roberto's liability, and, merely relied on the Certificate of Sale.

SMC's motion for reconsideration was similarly denied, thus it brought the case to the CA on appeal.

SMC argued that the RTC erred in finding that the SPAs in favor of Roberto did not include the authority to mortgage or encumber the property. SMC also questioned the award of damages and attorney's fees, as well as the dismissal of its cross-claim against Roberto.

In its presently assailed Decision, the CA dismissed SMC's appeal. The CA held that a power of attorney must be strictly construed. The subject SPAs merely authorized Roberto to offer the subject properties as collateral, but not to enter into a mortgage contract. According to the CA, to interpret the SPAs as likewise giving Roberto the power to mortgage the property is to unduly enlarge the term "to offer." Because Roberto exceeded his authority, the CA concluded that no valid mortgage was constituted over the properties, and, as such, the ensuing extra-judicial foreclosures by SMC are likewise void.

As regards SMC's cross-claim against Roberto, the CA sustained its denial as SMC failed to introduce evidence in support of SMC's claim that Roberto was liable for the amount of ₱7,000,000.00. According to the CA,

¹¹ Id. at 36.

¹² Id.

¹³ Id. at 38.

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the Certificate of Sale does not prove Roberto's liabilities but merely establishes the fact that SMC was awarded as the highest bidder at the foreclosure sale.

Finally, the CA deleted the award for moral damages and attorney's fees for lack of proof that SMC acted in bad faith.

In disposal, the CA held:

WHEREFORE, premises considered, the Appeal is **DENIED**. The Assailed Decision dated 28 August 2014 in Civil Case no. 08-0093 is **AFFIRMED with MODIFICATIONS** in so far as the award for moral damages in the amount of Five Hundred Thousand Pesos (Php 500,000.00) and the award of attorney's fees and costs of suit in the amount of Three Hundred Thousand Pesos (Php 300,000.00) are hereby **DELETED**.

SO ORDERED.

Thus, SMC's resort to the present petition raising the following:

Issues

Whether the [CA] erred when it affirmed the trial court's ruling that the SPAs did not include the authority to mortgage the property, despite the attendant circumstances in the case.

Whether the [CA] erred in denying the cross-claims of SMC against [Gandionco], considering that [Gandionco] was declared in default, applying Section 3 of Rule 9 of the Rules of Court.¹⁴

Ruling of the Court

The petition is partly granted.

The SPAs specifically authorizing Roberto to offer the properties as collateral constitutes sufficient authority to enter into a contract of mortgage

For a contract of mortgage to be valid, the following essential requisites must be met: *first*, that the mortgage is constituted to secure the fulfillment of a principal obligation; *second*, the mortgagor is the absolute owner of the thing mortgaged; and *third*, the persons constituting the mortgage have the free disposal of their property, and in the absence thereof, that they be legally authorized for the purpose. Third persons not parties to the principal obligation may secure such obligation by mortgaging their own property.¹⁵

¹⁴ Id. at 16.

¹⁵ See CIVIL CODE, Article 2085.

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In the instant case, it was Roberto who obtained certain obligations from SMC which he secured with the subject properties. The properties, are, in turn, owned by Gemma and Trinidad, *et al.*, who are third parties in relation to the principal obligation of Roberto to SMC. Since Gemma and Trinidad, *et al.*, were not the ones who personally mortgaged their properties to secure Roberto's obligations with SMC, the query to be had is whether Roberto was legally authorized to do so.

Article 1878¹⁶ of the Civil Code requires an SPA in cases where real rights over immovable property are created or conveyed. Here, the SPAs specifically authorized Roberto to "offer as collateral" to SMC the subject properties, to wit:

To offer as collateral, security or property bond with [SMC] a parcel of land located at Las Piñas City containing an area of ___ square meters and all improvements thereon and covered by TCT No. ____.

HEREBY GIVING AND GRANTING unto my/our said Attorney-in-Fact full power and authority whatsoever requisite necessary to be done in and about the premises as fully to all intents and purposes as I/WE might or could lawfully do if personally present and acting; and

HEREBY RATIFYING AND CONFIRMING all that my/our Attorney-in-Fact shall lawfully do or cause to be done under and by virtue of these presents.¹⁷

The language of the subject SPAs are clear and unambiguous. In interpreting contracts, Article 1370 of the Civil Code unequivocally provides that "if the terms of a contract are clear and leave no doubt upon the intention of the contracting parties, the literal meaning of its stipulations shall control."¹⁸ This is similar to the "plain meaning rule" which assumes that the intent of the parties to an instrument is "embodied in the writing

¹⁶ ART. 1878. Special powers of attorney are necessary in the following cases:

- (1) To make such payments as are not usually considered as acts of administration;
- (2) To effect novations which put an end to obligations already in existence at the time the agency was constituted;
- (3) To compromise, to submit questions to arbitration, to renounce the right to appeal from a judgment, to waive objections to the venue of an action or to abandon a prescription already acquired;
- (4) To waive any obligation gratuitously;
- (5) To enter into any contract by which the ownership of an immovable is transmitted or acquired either gratuitously or for a valuable consideration;
- (6) To make gifts, except customary ones for charity or those made to employees in the business managed by the agent;
- (7) To loan or borrow money, unless the latter act be urgent and indispensable for the preservation of the things which are under administration;
- (8) To lease any real property to another person for more than one year;
- (9) To bind the principal to render some service without compensation;
- (10) To bind the principal in a contract of partnership;
- (11) To obligate the principal as a guarantor or surety;
- (12) To create or convey real rights over immovable property;**
- (13) To accept or repudiate an inheritance;
- (14) To ratify or recognize obligations contracted before the agency;
- (15) Any other act of strict dominion. (Emphasis supplied)

¹⁷ Supra note 7.

¹⁸ CIVIL CODE, Article 1370.

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itself, and when the words are clear and unambiguous the intent is to be discovered only from the express language of the agreement.”¹⁹

Contrary to the CA’s ruling, the phrase “to offer” the subject properties “as collateral, security or property bond with SMC,” coupled with the “full power and authority” to do all that is necessary for all intents and purposes of the contract, is a specific and express authority to mortgage the subject properties in favor of SMC. This is so considering that the presentation of the TCTs by Roberto to SMC was for the purpose of complying with the collateral requirement for the dealership. As such, executing the real estate mortgages and registering the same with the register of deeds are well within the scope of the authority granted.

It is of no moment that it was the supposed “understanding” of the registered owners that “should SMC accept their certificates of title as collateral, Roberto would bring the necessary documents from SMC which [the registered owners] would then sign.”²⁰ Article 1900 of the Civil Code expressly states that “[s]o far as third persons are concerned, an act is deemed to have been performed within the scope of the agent's authority, if such act is within the terms of the power of attorney, as written, even if the agent has in fact exceeded the limits of his authority according to an understanding between the principal and the agent.” Article 1902 likewise unequivocally states that “[p]rivate or secret orders and instructions of the principal do not prejudice third persons who have relied upon the power of attorney or instructions shown to them.”

Assuming, however, that Roberto exceeded the limits of his authority under the SPA and such unauthorized acts were not ratified by Gemma and Trinidad, *et al.*, the latter are still bound by the mortgages entered by Roberto under the doctrine of apparent authority. As explained in *Woodchild Holdings, Inc. v. Roxas Electric and Construction Co., Inc.*:²¹

It bears stressing that apparent authority is based on estoppel and can arise from two instances: first, the principal may knowingly permit the agent to so hold himself out as having such authority, and in this way, the principal becomes estopped to claim that the agent does not have such authority; second, the principal may so clothe the agent with the indicia of authority as to lead a reasonably prudent person to believe that he actually has such authority. There can be no apparent authority of an agent without acts or conduct on the part of the principal and such acts or conduct of the principal must have been known and relied upon in good faith and as a result of the exercise of reasonable prudence by a third person as claimant and such must have produced a change of position to its detriment. The apparent power of an agent is to be determined by the acts of the principal and not by the acts of the agent.

¹⁹ *Norton Resources and Development Corporation v. All Asia Bank Corporation*, 620 Phil. 381, 388 (2009), citing *Benguet Corporation v. Cabildo*, 585 Phil. 23 (2008).

²⁰ *Supra* note 8.

²¹ 479 Phil. 896 (2004).

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For the principle of apparent authority to apply, the petitioner was burdened to prove the following: (a) the acts of the respondent justifying belief in the agency by the petitioner; (b) knowledge thereof by the respondent which is sought to be held; and, (c) reliance thereon by the petitioner consistent with ordinary care and prudence.²² x x x (Citations omitted)

In this case, in addition to executing similarly worded SPAs expressly authorizing Roberto to offer specific properties as collateral and to do all things necessary in furtherance of said purpose, Gemma and Trinidad, *et al.*, delivered their original owner's duplicate TCTs to Roberto. This happened not only once, but even on four separate occasions, and this made possible the execution of the mortgages on two of the properties, their registration, and the delivery by SMC of beer stocks to Roberto.

In *Domingo v. Robles*,²³ which involved a purportedly forged sale made with the aid of an agent who had possession of the original owner's duplicate TCTs, the Court upheld the sale and held:

The sale was admittedly made with the aid of Bacani, petitioner's agent, who had with him the original of the owner's duplicate Certificate of Title to the property, free from any liens or encumbrances. The signatures of Spouses Domingo, the registered owners, appear on the Deed of Absolute Sale. Petitioner's husband met with Respondent Yolanda Robles and received payment for the property. The Torrens Act requires, as a prerequisite to registration, the production of the owner's certificate of title and the instrument of conveyance. The registered owner who places in the hands of another an executed document of transfer of registered land effectively represents to a third party that the holder of such document is authorized to deal with the property.²⁴

Although the present case involves an SPA and not an executed deed, the Court finds the above quoted-ruling applicable by analogy since Roberto's possession of the SPAs and the owner's duplicates of the TCTs made it appear to SMC that he had the requisite authority to execute the REMs, and to register the same with the register of deeds.

Furthermore, Gemma and Trinidad, *et al.* did not exercise even the slightest diligence to ascertain the whereabouts of their owner's duplicate TCTs, but instead relied on Roberto's explanation that the titles were still in SMC's possession which has yet to decide which title to accept as collateral when asked about the status of the certificates of title. They only revoked the SPAs executed in favor of Roberto upon receiving news that Roberto's business had closed down, and that Roberto was able to mortgage two of their properties. Again, assuming that Roberto exceeded his authority under the SPAs, Gemma and Trinidad, *et al.*, must be bound by the mortgages executed by the former, for "as between two innocent persons, one of whom

²² Id. at 914.

²³ G.R. No. 153743, March 18, 2005, 453 SCRA 812.

²⁴ *Rollo*, p. 819.

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must suffer the consequences of a breach of trust, the one who made it possible by his act of confidence must bear the loss.”²⁵

On the basis of the foregoing, a reversal of the assailed CA ruling is in order. Nevertheless, SMC’s prayer for award of moral damages (in the amount of ₱500,000.00), exemplary damages (in the amount of ₱100,000.00), and attorney’s fees and litigation expenses (in the amount of ₱600,000.00) must be denied, as its present petition does not even allege the factual and legal bases in support thereof.

Remand necessary to determine Roberto’s outstanding liability to SMC, if there is any

Roberto’s indebtedness to SMC is undisputed. While the Court rules that the mortgages executed by Roberto over the subject properties are valid, it must be clear that Roberto’s indebtedness to SMC arose from the dealership which he entered into in his personal capacity, and not on behalf of Gemma and Trinidad, *et al.* Thus, Gemma and Trinidad, *et al.*, can only be considered as third-party or accommodation mortgagors, and can only be held liable to the extent of the amount secured by the mortgages over their properties. This Court has held:

There is x x x no legal provision nor jurisprudence in our jurisdiction which makes a third person who secures the fulfillment of another's obligation by mortgaging his own property to be solidarily bound with the principal obligor. x x x The signatory to the principal contract — loan — remains to be primarily bound. It is only upon the default of the latter that the creditor may have recourse on the mortgagors by foreclosing the mortgaged properties in lieu of an action for the recovery of the amount of the loan. And the liability of the third-party mortgagors extends only to the property mortgaged. Should there be any deficiency, the creditor has recourse on the principal debtor.²⁶ (Citation omitted)

Unfortunately, the records available to the Court are insufficient to determine whether Roberto still has any outstanding liability to SMC after applying the proceeds of the foreclosure sale. In particular, the amount secured by the mortgages, as well as SMC’s bid in the foreclosure sale, are not specified in the pleadings or in the attachments thereto. For this reason, the Court deems it to the best interest of the parties to give due course to SMC’s cross-claim against Roberto, and consequently, to remand the case solely for the purpose of determining the amount of Roberto’s outstanding liability, if any, after applying the proceeds of foreclosure to satisfy his indebtedness.

²⁵ *Tenio-Obsequio v. Court of Appeals*, G.R. No. 107967, March 1, 1994, 230 SCRA 550, 560.

²⁶ *Land Bank of the Philippines v. Belle Corporation*, 768 Phil. 368, 390 (2015), citing *Cerna v. Court of Appeals*, G.R. No. L-48359, March 30, 1993, 220 SCRA 517, 522-523.

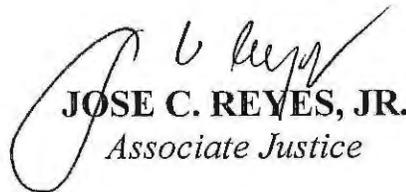
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WHEREFORE, the petition is **PARTLY GRANTED**. The Decision dated October 10, 2017 and Resolution dated February 14, 2018 of the Court of Appeals insofar as it declared the real estate mortgages dated September 26, 2007 and July 12, 2007 and the consequent extrajudicial foreclosure sales as void, ordered petitioner San Miguel Corporation to return to respondents their owner's duplicate copies of Transfer Certificates of Title Nos. T-6347 and T-5433, and dismissed San Miguel Corporation's cross-claim against Roberto Gandionco, are **REVERSED and SET ASIDE**.

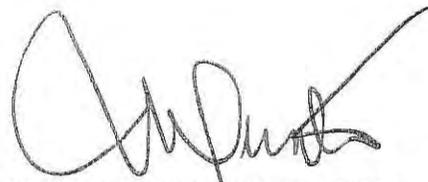
San Miguel Corporation's prayer for award of moral damages (in the amount of ₱500,000.00), exemplary damages (in the amount of ₱100,000.00), and attorney's fees and litigation expenses (in the amount of ₱600,000.00) is **DENIED** for lack of merit.

For the purpose of determining the exact amount of respondent Roberto Gandionco's outstanding liability to San Miguel Corporation, if there is any, the case is hereby **REMANDED** to the Regional Trial Court of Las Piñas City.

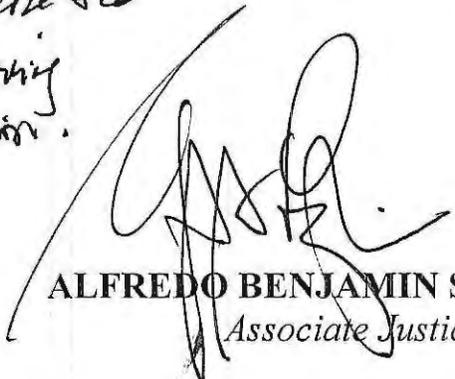
SO ORDERED.


JOSE C. REYES, JR.
Associate Justice

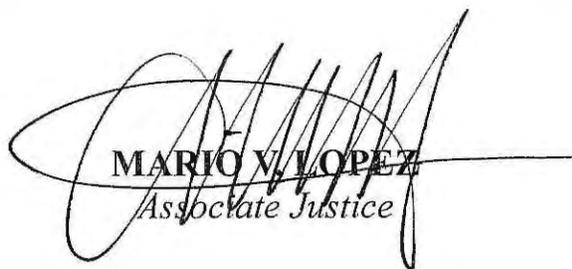
WE CONCUR:


DIOSDADO M. PERALTA
Chief Justice
Chairperson

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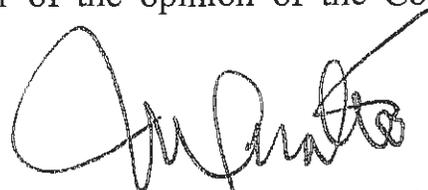

ALFREDO BENJAMIN S. CAGUIOA
Associate Justice


AMY C. LAZARO-JAVIER
Associate Justice


MARIO V. LOPEZ
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

**DIOSDADO M. PERALTA***Chief Justice*